Supreme Court, U.S.
FILED
JUN 10 2003
OFFICE OF THE CLERK

No. 02-1213

IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and
COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari
to the United States Court of Appeals for the Seventh Circuit

REPLY IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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Dated: June 10, 2003

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REASONS FOR GRANTING THE WRIT

The primary question presented by the Petition is whether copyright ownership for a derivative work can be reassigned from the undisputed authors of that work to the owners of the copyright in the underlying work absent a signed writing.

Respondents do not deny the vital national importance of that question both for independent authors of derivative works and for owners of underlying works. They do not deny that derivative works impacted by this question constitute billions of dollars in intellectual property. They do not deny that, because of the ease of forum shopping in connection with copyright matters, the Seventh Circuit's decision will impact economic activity far beyond that circuit's borders. And they do not even *attempt* to deny that the decision below conflicts with the authoritative interpretations used by the Copyright Office to administer the copyright registration system. In short, respondents concede that the issues in this case are precisely the type requiring prompt and clear resolution by this Court in order to provide certainty to an important area of the law and an important sector of the economy.

Instead of disputing the *significance* of the issues in this case, respondents seek to defend the *result* below by mischaracterizing the questions presented, mischaracterizing the position advocated by petitioners, and misapprehending the most basic and settled principles of copyright law. Contrary to respondents' claims, this case is not about the conditions or scope of a license to prepare a derivative work. It is about the *means* by which ownership of a copyright can be altered regardless whether such change is attempted via a license or otherwise. It is about the difference between an infringing "use" of an existing work and copyright ownership for the discrete portion of *new* material added to a derivative work. It is about the false conflict created by the Seventh Circuit between the use rights in § 106 and the ownership rights in §§ 201 and 204. And it is about the legal standards used to *interpret* purported agreements relating to copyright.

Apart from the dubious substance of respondents' arguments, however, respondents do not and cannot deny that they are contrary to the understandings of leading intellectual-property bar organizations, law professors, numerous independent authors, and the U.S. Copyright Office. While such polar disagreement with respondents' position certainly speaks to the lack of merit in that position, it more directly speaks to the nationwide confusion and conflict that will be engendered if the questions presented lack definitive resolution by this Court. This Court will have no difficulty resolving the straightforward merits of this case on plenary review, but at the petition stage what is far more important is simply to recognize the uncertainty and disruption in the copyright system caused by the decision below.

This Court frequently has granted certiorari in copyright cases where a single decision threatened nationwide disruption of the statutory balance and basic default rules created by Congress in the Copyright Act. Pet. 28-29.[1] The threat in this case is of far greater magnitude than that in previous cases and thus requires this Court's attention.

I. THIS CASE RAISES IMPORTANT NATIONAL ISSUES THAT SHOULD BE RESOLVED BY THIS COURT.

It is the clear and unequivocal understanding of copyright lawyers, copyright scholars, independent authors, and the Copyright Office that in order for the copyright in a derivative work to be owned by anyone other than the author there must be a signed writing transferring such ownership.[2] While such

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[1] *See, e.g.*, *New York Times Co.* v. *Tasini*, 533 U.S. 483 (2001); *Community for Creative Non-Violence* v. *Reid*, 490 U.S. 730 (1989) ("*CCNV*"); *cf. Dastar Corp.* v. *Twentieth Century Fox Film Corp.*, No. 02-428, Slip Op. (June 2, 2003) (conflict between Trademark and Copyright Acts).

[2] *See Amicus* Br., Comm. on Copyright and Literary Property, Ass'n of the Bar of the City of New York, at 7; *Amicus* Br., Intellectual Property Law Ass'n of Chicago (IPLAC), at 4; *Amicus* Br., Malla Pollack *et al.*, at 3; Pet. 12-14 (Copyright Office views).

support speaks to the merits of this case, it is more relevant at this stage in demonstrating the widespread *understanding*, right or wrong, of the basic copyright rules.

The decision below disrupts that settled understanding and thwarts Congress' vital goal of promoting predictability and certainty in the copyright field. The confusion that will result is confirmed by the especially well-informed views of attorneys who routinely practice in this area and of authors who create derivative works with expectations that have now been thrown into disarray.[3] Respondents have no answer to the views of *amici* or to the interpretations of the Copyright Office, despite having had over three months to respond to the Petition and over two months to respond to *amici*.[4]

Respondents largely ignore the disruptive consequences of the decision below. They do not deny that it flagrantly circumvents the express limits on work-for-hire, creating the sort of *de facto* work-for-hire doctrine based on "intent" that was rejected by this Court in *CCNV*. Pet. 27 n. 13; ICCA Letter 1. Nor do they deny that the decision below will significantly interfere with the Copyright Office's administration of the copyright registration and certification system. Pet. 29-30. Instead, they falsely accuse *petitioners* of "seeking to upset settled understandings" by preventing underlying owners from acquiring derivative copyright ownership. BIO 2, 14.

It is pure fiction to claim that existing owners have assumed they could rely on *unwritten* and *unsigned* licenses

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[3] *See* Copyright Comm. Br. 2, 7, 14; IPLAC Br. 2, 4, 10-11; Pollack Br. 1-3, 9-11; *see also* Letter to Supreme Court from Independent Computer Consultants Ass'n, Kansas City Chapter (ICCA), June 2, 2003, at 1 (on file with the Court) (decision "leaves the software industry as a whole in an unpredictable state regarding ownership of" copyrightable code).

[4] Respondents waived response to the Petition at the eleventh hour in order to see what *amicus* briefs would be filed. Following a CFR, respondents sought a further extension by claiming to need time to respond to *amici*. After such maneuvers, their utter silence is particularly telling.

purporting shift copyright ownership of derivative works. Rather, the two copyright bar *amicus* briefs, representing the very people who would be advising such owners, confirm petitioners' position that the decision below runs contrary to established expectations. Until now, existing copyright owners understood they could secure copyright ownership in derivative works only with a signed writing.

Because the decision below disrupts expectations far beyond the Seventh Circuit alone, Pet. 29, and impacts a vital sector of the economy, it is imperative for this Court to review whether such disruption is faithful to the Copyright Act.

II. THE DECISION BELOW CREATES CIRCUIT SPLITS ON MULTIPLE EMBEDDED ISSUES.

The Petition, at 21-25, identified several circuit splits on issues essential to the holding of the Seventh Circuit. While no single case on the other side of those splits replicates *all* of the circumstances present in the Seventh Circuit, they each address an issue on which the Seventh Circuit has made a discrete ruling and on which the outcome of the decision below depends. The precedents established by each of the Seventh Circuit's embedded rulings thus create the type of inter-Circuit conflict that warrants this Court's review.

The Petition identified a circuit conflict centered on the Seventh Circuit's holdings regarding the vesting of initial ownership and the character and requirements for a transfer of copyright ownership. Respondents, however, largely ignore the Eleventh Circuit's holding in *Arthur Rutenberg Homes, Inc.* v. *Drew Homes, Inc.*, 29 F.3d 1529, 1530 (CA11 1994), that an unwritten agreement purporting, *ex ante*, to reassign ownership of a copyright was invalid and that initial "ownership vests in the author." *Rutenberg* likewise found that ownership could shift, even as an anticipatory matter, only through a § 204 signed writing transferring ownership. *Id.* at 1531. Those findings are in square conflict with the Seventh

Circuit's erroneous exemption of supposed changes in *initial* ownership from the § 204 signed-writing requirement.

Respondents' observation that *Rutenberg* did not involving a licensed derivative work is a factual difference without significance to the legal split: A license is nothing more than an agreement, and insofar as that agreement impacts exclusive copyright ownership, the substantive rights of the underlying owner have no bearing on the *procedural* rights and protections of the derivative work author.[5]

The Petition, at 22-25, also identified conflicts regarding whether ownership and registration of a derivative copyright constituted an infringing "use" of the underlying work and regarding the proper interpretation of references to the embodiment of a work rather than its copyright. Respondents do not dispute those conflicts but instead substitute the alternative theory that registering the derivative copyright "exceeded the scope" of the license, "thus voided the license," and consequently caused the very *creation* of the derivative work to be an infringing use of the underlying work. BIO 13.

That "voided-license" theory, of course, is no defense of the Seventh Circuit's rather different holding that mere registration, not creation, constituted the infringing use, it begs the question regarding the proper interpretation of the alleged license referring only to ownership of "code," and thus does not reconcile the circuit conflict on the two points.[6] As for

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[5] As for *Aymes* v. *Bonelli*, it is significant not for its *application* of the work-for-hire test, BIO 13, but for its identification of the *consequences* of a work not being "for-hire": The independent contractor author was thus the initial owner of the copyright. 980 F.2d 857, 864 (CA2 1992). And *Effects Associates, Inc.* v. *Cohen* is significant not for the concession of initial ownership, but instead for the statement of controlling law that made that concession inevitable. 908 F.2d 555, 557 (CA9 1990), *cert. denied* 498 U.S. 1103 (1991).

[6] Respondents' new theory actually contradicts the holding of the Seventh Circuit. If correct, it would void the derivative copyright entirely.

the flawed merits of respondents' alternative theory of infringement, those will be discussed below. *See infra*, at 7-9.

III. CONFLICT WITH THE COPYRIGHT ACT, THIS COURT, AND THE COPYRIGHT OFFICE.

It is, and always has been, petitioners' claim that *initial* copyright ownership unqualifiedly vests in the author of a work, but that such author can agree, at any time, to transfer *ultimate* copyright ownership so long as such agreement is memorialized in a signed writing. The purported agreement that Price Waterhouse would own the derivative copyright in this case was a "transfer" of ownership as defined by the Act and was ineffective in the absence of a signed writing.

A. Copyright Ownership Initially Vests in the Author and Shifts Only by Written, Signed Transfer.

Ignoring the statutory directive that *initial* ownership vests in the author, and that all other ownership must be the result of a valid transfer, respondents mischaracterize the first question presented as "whether the Copyright Act vests the authors of derivative works with an *inalienable* right to the copyright in their work." BIO 2 (emphasis in original). The actual question is not whether an author *can* alienate copyright ownership – of course it can – but rather what *means* are required to accomplish that result. Section 204 is unambiguous on this point: Copyright ownership can be alienated *only if memorialized by a signed writing.*[7]

Respondents also wrongly impute to petitioners a claim that underlying copyright owners are "unable to authorize the creation of derivative works in which they owned the copyright." BIO 1; *see also id.* at 5, 6, 11, 12 (similar misstate-

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[7] Respondents merely repeat the Seventh Circuit's claim that the requirements for a *transfer* of ownership do not apply to a change of initial ownership. BIO 9, 10. But even the "alienation" of initial ownership rights constitutes a "transfer of copyright ownership" as defined in the Act and confirmed by the Copyright Office. 7 U.S.C. § 101; Pet. 13-14. Respondents curiously ignore that authoritative guidance.

ments of petitioners' position). That straw-man is not of *petitioners'* making. Underlying owners can obtain derivative copyrights and derivative authors are "free to alienate" their copyright ownership, BIO 2; they need only comply with the procedures required by § 204 for a *transfer* of ownership. And such a written transfer can anticipate the creation of the work. Pet. 14-15. It is only the unwritten, unsigned, and ambiguous "intent of the parties" relied upon by the Seventh Circuit that is incapable of alienating copyright ownership.

B. Derivative Copyright Ownership Was Not a Condition of the License.

Setting up a false conflict between § 106 of the Copyright Act and §§ 201 & 204, respondents argue, at 1, that underlying owners may place conditions on the grant of § 106 rights, "including ownership of the copyright in the derivative work," notwithstanding the procedural limits established by § 204. That argument is deeply flawed.

First, while an underlying owner can, of course, name its price for a license, where such price involves the exchange of exclusive copyright ownership, nothing in § 106 excuses the terms of exchange from the separate requirements of § 204 or permits imposition of otherwise invalid terms. Respondents' suggestion, at 7, that the underlying owner's rights trump the derivative author's rights continues to confuse infringing "use" of the underlying work with ownership of the copyright in the *new* material contributed to the derivative work. *See* Pet. 15-18. Each party *owns* the copyright in their respective contributions to the derivative work but neither party can *use* the combined result without the further consent of the other. Neither party's statutory rights trump the other's because they exist in separate spheres.

Second, it is not inconsistent that the grant of a non-exclusive right to create a derivative work can be oral but the exchange of exclusive copyright ownership must be in a signed writing. That distinction is expressly drawn by the

Copyright Act itself. 7 U.S.C. § 101 ("transfer of copyright ownership" definition); *cf.* 1 Melville Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 3.06, at 3-34.23 (2002) ("NIMMER") (distinguishing exclusive versus non-exclusive rights in derivative work context). Application of that distinction hardly allows the Sky programmers to have it "both ways." BIO 2. The Sky programmers proceeded at the oral direction of Price Waterhouse's employee, Yang, and certainly did not "accept[]" or "embrace," BIO 2, 10, the June 7 letter or any other supposed condition requiring them to give up *copyright* ownership. Indeed, respondents' claim simply begs the question of *how* such acceptance must be established. The very point of a signed-writing requirement is to impose certainty and predictability regarding whether an author has indeed *accepted* an alleged alienation of ownership. Unpredictable jury findings inferring "intent" in "ambiguous" circumstances, App. A8, are no substitute. The issue of intent should never have gone to the jury in the first place.

Third, respondents' suggestion that copyright ownership was a "condition" to the license rather than simply a covenant or term of exchange, ignores the specific requirements for finding such a condition. "Conditions precedent are disfavored and will not be read into a contract unless required by plain, unambiguous language." *Effects Associates*, 908 F.2d at 559 n. 7. Respondents never established, and the courts below never found, that copyright ownership was a condition precedent for the license. And they could not possibly have found such a condition given the concession that the supposed license terms were "ambiguous." App. A8.

Given the impossibility of establishing a condition in this case, respondents' reliance on NIMMER's discussion of the consequences if such a condition were present is misplaced. BIO 9, 13. Indeed, NIMMER recognizes the difficulty of establishing such a condition, § 10.15, at 10-115 to -116, and seems to contemplate an express "agreement" that "affirmatively bars" derivative copyright protection in order to create

such a condition, *id.* § 3.06, at 3-34.26(1). That is fully consistent with petitioners' position that such an agreement relating to ownership would have to comply with § 204's requirement of a signed writing. Absent proof of a "condition," the alleged ownership change would be just an unenforceable non-use term of exchange that would not void the license.[8]

C. Registering Copyright Ownership in a Derivative Work Is Not an Unauthorized "Use."

Respondents silently concede that registering a derivative copyright is not itself a "use" of either the underlying work or the derivative work. Instead of the Seventh Circuit's flawed "registration-as-use" holding, respondents offer a variant of their license "condition" argument, suggesting that registration violated the "scope" of the license, thereby voiding the license and retroactively making the prior *creation* of the derivative work an unauthorized use. BIO 6, 8.

First, just as with the condition argument, the scope-of-license argument begs the question of how one establishes the alleged limitations relating to exclusive copyright ownership. Whether called a condition, a limit on scope, or merely a term of exchange, a purported alienation of copyright ownership can only be established in compliance with § 204.

Second, characterizing an ownership term as going to the "scope" of the license also begs the question of whether ownership and registration constitute "uses" of the underlying work. A license's "scope" is defined by the uses it permits of the underlying work. Derivative copyright ownership is merely a separate, and unenforceable, non-use term of the exchange, no different than a promise to pay royalties. Violation of such a term may be a breach, not an infringement.[9]

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[8] Furthermore, the consequence of violating a condition would be to void the copyright *entirely*, not vest ownership in the underlying author.

[9] The cases cited by respondents, at 7-8, for the supposed priority of the underlying owner's rights all involve infringing *uses* of the underlying

D. The Decision Conflicts with the Copyright Act's Distinction between a Work and Its Copyright.

Respondents simply ignore the federal-law constraints on the construction of the June 7th letter they hold out as the license agreement and continue to rely on a supposed jury finding "that the license specified that 'the China RevUp32 program, *including the copyright*, would become the property of Price Waterhouse upon completion of the project.'" BIO 8 (citing App. C5) (emphasis added by BIO).[10]

But the jury never should have been allowed to weigh in on the construction of the supposed license in the first place. By permitting an ambiguous reference to "code" to be construed as referring to ownership of the copyright in that code, the trial court asked "the jury a question that the statute already answers." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964); *see* 17 U.S.C. § 202; Pet. 20, 24-25. Contract construction is a legal, not a factual, issue, particularly where the Copyright Act establishes the meaning to be attributed to references to the embodiment of a work rather than the copyright in a work.

CONCLUSION

The decision below strikes at the heart of copyright ownership and the means by which authors can be dispossessed of such ownership. It undermines the careful balance of the Copyright Act, the settled expectations of the legal and economic community, and the copyright registration system administered by the Copyright Office. This Court should grant the petition for a writ of certiorari.

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works, not copyright *ownership* by derivative authors. In none of those cases did the underlying author's rights to restrict the use of a combined derivative work override the derivative author's copyright *ownership* regarding the new elements added to the derivative work.

[10] Petitioners repeatedly objected to allowing the jury to opine on such matters of law, notwithstanding respondents' suggestion to the contrary. *Compare* Trial Transcript 1497-1500, 1502 *with* BIO 8.

Respectfully submitted,

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